

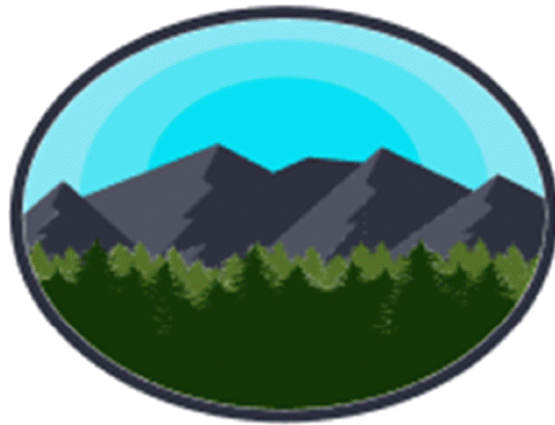
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**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST**

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**ANNUAL FINANCIAL REPORT**

**FISCAL YEAR ENDED JUNE 30, 2024**



# NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST

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JUNE 30, 2024

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Northern Arizona Public Employees Benefit Trust  
Flagstaff, Arizona

### **Report on the Financial Statements**

#### ***Opinions***

We have audited the financial statements of the Northern Arizona Public Employees Benefit Trust (the "Trust"), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the Northern Arizona Public Employees Benefit Trust, as of June 30, 2024, and the respective changes in financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Trust and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Responsibilities of Management for the Financial Statements***

The Trust's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Trust's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Trust's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and claims development information, as listed within the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2025 on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control over financial reporting and compliance.

*CWDL, Certified Public Accountants*

Mesa, Arizona

April 7, 2025

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2024**

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As management of the Northern Arizona Public Employees Benefit Trust (Trust), we offer readers of the Trust's financial statements this narrative overview and analysis of the financial activities of the Trust for the fiscal year ended June 30, 2024. The management's discussion and analysis are presented as required supplementary information to supplement the basic financial statements.

**FINANCIAL HIGHLIGHTS**

- The Trust's total net position of business-type activities increased \$4.1 million which represents an 33% increase from the previous fiscal year as a result of an increase in contribution revenue.
- The Trust had \$36.1 million in operating revenue, an increase of \$2.1 million from the previous fiscal year. The Trust had approximately \$31.9 million in operating expenses. Operating expenses increased \$1.7 million primarily from an increase in claims, administrative fees, and administrative expenses.

**OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis are intended to serve as an introduction to the Trust's financial statements. The Trust's financial statements comprise two components: 1) proprietary financial statements, and 2) notes to the financial statements.

The statement of net position presents information on all the Trust's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Trust is improving or deteriorating.

The statement of revenues, expenses, and changes in net position presents information showing how the Trust's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The statement of cash flows outlines the cash inflows and outflows related to the operation of the Trust for the current fiscal year-end.

As discussed more thoroughly in Note 1 to the financial statements, the operations of the Trust are accounted for in a single proprietary fund. As a result, only the financial statements required for a proprietary fund are presented.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found immediately following the financial statements.

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Trust's claims development information. A table representing claims development information for the 10-year period ended June 30, 2024, is presented as required supplementary information.

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2024**

**FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Trust, assets exceeded liabilities by \$16.5 million at fiscal year-end. The following table presents a summary of the Trust's net position for the fiscal years ended June 30, 2024 and 2023.

	<b>2024</b>	<b>2023</b>	<b>Net Change</b>
<b>ASSETS</b>			
Current and other assets	\$ 24,062,086	\$ 17,396,743	\$ 6,665,343
Capital assets	550,428	620,661	(70,233)
<b>Total Assets</b>	<b>24,612,514</b>	<b>18,017,404</b>	<b>6,595,110</b>
<b>LIABILITIES</b>			
Current liabilities	7,595,420	5,079,994	2,515,426
Long-term liabilities	503,191	545,381	(42,190)
<b>Total Liabilities</b>	<b>8,098,611</b>	<b>5,625,375</b>	<b>2,473,236</b>
<b>NET POSITION</b>			
Net investment in capital assets	(12,617)	(320)	(12,297)
Unrestricted	16,526,520	12,392,349	4,134,171
<b>Total Net Position</b>	<b>\$ 16,513,903</b>	<b>\$ 12,392,029</b>	<b>\$ 4,121,874</b>

At the end of the current fiscal year the Trust reported a negative balance in the net investment in capital assets and a positive balance in unrestricted net position. The net investment in capital assets decreased from the prior year due to the Trust entering into a contract for a building lease. Unrestricted net position increased \$4.1 million from the prior year, representing the cumulative effect of increased contribution revenue.

**Changes in net position**

The Trust's total revenues for the current fiscal year were \$36.1 million. The total expenses were \$31.9 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2024 and 2023.

	<b>2024</b>	<b>2023</b>	<b>Net Change</b>
<b>REVENUES</b>			
Operating revenues			
Contributions	\$ 35,376,733	\$ 33,548,198	\$ 1,828,535
Nonoperating revenues			
Investment income	703,962	440,560	263,402
<b>Total Revenues</b>	<b>36,080,695</b>	<b>33,988,758</b>	<b>2,091,937</b>
<b>EXPENSES</b>			
Claims	24,469,658	23,717,648	752,010
Trust administration	3,883,058	3,102,696	780,362
Cost of services	3,518,223	3,401,384	116,839
Depreciation	70,234	24,790	45,444
Nonoperating expenses			
Interest expense	17,648	-	17,648
<b>Total Expenses</b>	<b>31,958,821</b>	<b>30,246,518</b>	<b>1,712,303</b>
<b>Change in net position</b>	<b>4,121,874</b>	<b>3,742,240</b>	<b>379,634</b>
<b>Net Position - Beginning</b>	<b>12,392,029</b>	<b>8,649,789</b>	<b>3,742,240</b>
<b>Net Position - Ending</b>	<b>\$ 16,513,903</b>	<b>\$ 12,392,029</b>	<b>\$ 4,121,874</b>

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2024**

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Contribution revenue increased \$1.8 million, which was due to an increase in funding from participating entities. Expenses increased by \$1.7 million, which is primarily driven by an increase in claims, administrative fees, and other professional service costs.

**CAPITAL ASSETS**

At fiscal year-end, the Trust reported capital assets of \$0.6 million, which includes leasehold improvements, furniture, computers, and other equipment as well as intangible leased assets. The amount invested is net of accumulated depreciation and amortization of \$0.7 million. Total depreciation and amortization expense for the current fiscal year was \$70,234. Additional information on the Trust's capital assets can be found in Note 3.

Capital assets for fiscal years June 30, 2024 and 2023, net of accumulated depreciation were as follows:

	<u>2024</u>	<u>2023</u>	<u>Net Change</u>
<b>CAPITAL ASSETS</b>			
Intangible Assets			
Leased Assets - Buildings	\$ 550,428	\$ 620,661	\$ (70,233)

**Long-Term Debt**

At the end of the current fiscal year, the Trust's debt was related to a lease liability. The Trust leases office space at a monthly rent amount of \$6,300. The three-year lease term expires on May 31, 2026, but is expected to be renewed for two additional three-year terms. The lease has a discount rate of 3%. More information on the lease liability can be found in Note 4.

**CLAIM RESERVES**

As of June 30, 2024, the Trust had \$5.9 million designated for claim payments. The following table presents a summary of the Trust's unpaid claims for the fiscal years ended June 30, 2024 and 2023.

	<u>2024</u>	<u>2023</u>	<u>Net Change</u>
<b>CLAIMS RESERVES</b>			
Unpaid claims and claim adjustment expenses at end of the fiscal year	\$ 5,932,376	\$ 3,961,640	\$ 1,970,736

**ECONOMIC FACTORS**

The primary factors considered by the Trust's administration during the process of developing the fiscal year 2023-2024 contribution rates were the prior year claims experiences, projected health trend rates, negotiated administrative expenses, insurance premiums, and compliance with reserve policy for the plan year.

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2024**

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**CONTACTING THE TRUST'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Trust's finances and to demonstrate the Trust's accountability for the resources it receives. If you have questions about this report or need additional information, contact Risk Program Administrator, 333 E Osborn Road, Phoenix, AZ 85012. More information can be found at the Trust's website at [www.napebt.com](http://www.napebt.com).

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## **FINANCIAL SECTION**

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**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2024**

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**ASSETS**

**CURRENT ASSETS**

Cash and investments	\$ 21,600,904
Deposits	535,000
Accounts receivable	953,231
Prepays	<u>24,675</u>
<b>Total Current Assets</b>	<b>23,113,810</b>

**NONCURRENT ASSETS**

Restricted cash and investments	948,276
Property and equipment (net)	<u>550,428</u>
<b>Total Non-Current Assets</b>	<b><u>1,498,704</u></b>
<b>Total Assets</b>	<b><u>24,612,514</u></b>

**LIABILITIES**

**CURRENT LIABILITIES**

Accounts payable	654,914
Claims payable	5,932,376
Unearned revenue	948,276
Lease Liability (Current Portion)	<u>59,854</u>
<b>Total Current Liabilities</b>	<b><u>7,595,420</u></b>

**LONG TERM LIABILITIES**

Lease Liability	<u>503,191</u>
<b>Total Liabilities</b>	<b><u>8,098,611</u></b>

**NET POSITION**

Net investment in capital assets	(12,617)
Unrestricted	<u>16,526,520</u>
<b>Total Net Position</b>	<b><u>\$ 16,513,903</u></b>

*See accompanying Notes to the Basic Financial Statements*

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST**  
**STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION**  
**YEAR ENDED JUNE 30, 2024**

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<b>OPERATING REVENUE</b>	
Contributions - City of Flagstaff	\$ 9,204,792
Contributions - Coconino Community College	1,688,359
Contributions - Coconino County	12,654,158
Contributions - Coconino County Accommodation School District	184,067
Contributions - Flagstaff Unified School District	10,600,465
Contributions - Kachina Village Improvement District	102,726
Contributions - Mountain Line	<u>942,166</u>
<b>Total Operating Revenue</b>	<b>35,376,733</b>
<b>OPERATING EXPENSE</b>	
Claims	24,469,658
Trust administration	3,883,058
Cost of services	3,518,223
Depreciation	<u>70,234</u>
<b>Total Operating Expense</b>	<b><u>31,941,173</u></b>
<b>OPERATING INCOME</b>	<b>3,435,560</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Investment income	703,962
Interest expense	<u>(17,648)</u>
<b>Total Non-Operating Revenues/(Expenses)</b>	<b>686,314</b>
<b>CHANGE IN NET POSITION</b>	<b>4,121,874</b>
<b>Net Position - Beginning</b>	<u>12,392,029</u>
<b>Net Position - Ending</b>	<b><u>\$ 16,513,903</u></b>

*See accompanying Notes to the Basic Financial Statements*

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2024**

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<b>Cash flows from operating activities</b>	
Cash received from contributions	\$ 34,425,033
Cash payment for claims	(22,239,667)
Cash payments for supplies for goods and services	<u>(7,101,852)</u>
Net cash provided/(used) by operating activities	<u>5,083,514</u>
<b>Cash flows from investing activities</b>	
Investment income and other	703,962
<b>Cash flows from capital and related financing</b>	
Interest expense	(17,648)
Cash paid on lease liability	<u>(57,936)</u>
Net cash provided/(used) in capital and related financing	<u>(75,584)</u>
<b>NET INCREASE/(DECREASE) IN CASH</b>	5,711,892
<b>CASH</b>	
Beginning of year	<u>16,837,288</u>
End of year	<u>\$ 22,549,180</u>
 <b>Reconciliation of operating income to cash used in operating activities</b>	
Operating income	\$ 3,435,560
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation/amortization	70,234
(Increase)/decrease in accounts receivable	(951,700)
(Increase)/decrease in prepaid expenses	(1,752)
Increase/(decrease) in accounts payable	309,865
Increase/(decrease) in unearned revenue	(8,684)
Increase/(decrease) in claims payable	<u>2,229,991</u>
<b>Net cash used by operating activities</b>	<u>\$ 5,083,514</u>

*See accompanying Notes to the Basic Financial Statements*

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2024**

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Organization***

The financial statements of the Northern Arizona Public Employees Benefit Trust (Trust) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units since the Trust is a group of governmental entities joined together to form a public entity risk pool. The operations of the Trust are presented in the accompanying financial statements as a single proprietary fund. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

***Reporting Entity***

The Trust was formed July 1, 1993, between the City of Flagstaff, Coconino Community College, Coconino County, and Flagstaff Unified School District No. 1. Currently, the Trust has seven participants, of which four are the original participating employers and three are nonvoting participants. The Board of Trustees consists of four people who are employees or governing body members of the four original participating employers.

The purpose of this Trust is to provide benefits, including but not limited to, accidental death and dismemberment, disability, basic or major medical coverage for accidents or sickness, dental, and any other benefits as determined by the Board of Trustees for beneficiaries, provided such benefits are related to health, death, or disability.

Effective July 1, 2006, the Trust became self-funded for medical and prescription benefits. Additional benefits, including but not limited to, accidental death or dismemberment, dental, and vision, are fully insured and the premiums are paid directly by the participants to the insurers. In the self-funded arrangement, the employer and employee contributions are set aside in the Trust in order to accumulate amounts necessary to pay benefits and administrative expenses. A third-party processes the medical and prescription claims on the plan and then notifies the Trust of the number of claims to be paid on a monthly basis.

***Basis of Accounting/Measurement Focus***

The Trust's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Operating revenues and expenses are distinguished from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with ongoing operations. The principal operating revenues of the Trust are contributions from the participants. Operating expenses include the cost of claims, premiums, wellness clinic operating expenses, and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

***Cash and Investments***

For purposes of the statement of cash flows, the Trust considers all highly liquid investments with a maturity of three months or less to be cash equivalents. Cash and cash equivalents at year-end were cash in bank and cash-equivalent investments held with the State Treasurer.

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2024**

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Cash and Investments (Continued)***

Arizona Statute requires a pooled collateral program for public deposits and a Statewide Collateral Pool Administrator (Administrator) in the State Treasurer's Office. The purpose of the pooled collateral program is to ensure that governmental entities' public deposits placed in participating depositories are secured with collateral of 102% of the public deposits, less any applicable deposit insurance. An eligible depository may not retain or accept any public deposit unless it has deposited the required collateral with a qualified escrow agent or the Administrator. The Administrator manages the pooled collateral program, including reporting on each depository's compliance with the program.

Investments are stated at fair value. It is management's intent and ability to hold all investments until maturity. Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments.

***Accounts Receivable***

Accounts receivable, including contributions receivable are considered by management to be collectible in full and, accordingly, an allowance for doubtful accounts is not considered necessary.

***Prepaid Items***

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. Prepaid items are recorded as expenses when consumed.

***Capital Assets***

Capital assets, which include leasehold improvements, and furniture and equipment, are reported in the statements. Capital assets are defined per the Trust's capital asset policy as assets with a useful life minimum of three years and individual, initial costs of \$5,000 for leasehold improvements and \$1,000 for furniture and equipment. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<b>Asset Class</b>	<b>Years</b>
Leasehold improvements	5 years
Furniture and equipment	7 years

***Claims Reserves***

The Trust establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. Adjustments to claim liabilities are charged or credited to expense in the periods in which they are made. Given the inherent uncertainty in the nature of such estimates, future losses will likely deviate, perhaps materially, from those estimates.

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2024**

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Contributions***

The Trust agreement provides that each participating employer contribute a specified amount to the Trust. The contribution rates are determined by the Board of Trustees on an annual basis.

Premiums received in excess of finalized amounts are generally applied to the participants' premiums for the following year and are included in the accompanying statement of net position as unearned revenue.

***Reinsurance***

The Trust uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits recovery of a portion of losses from reinsurance, although it does not discharge the primary liability of the Trust as direct insurer of the risks reinsured.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

***Net Position***

In the financial statements, net position is reported within three categories: net investment in capital assets; restricted net position; and unrestricted net position. Net investment in capital assets is separately reported because capital assets make up a portion of total net position. Restricted net position accounts for the portion of net position restricted by parties outside the Trust, however, as of June 30, 2024, the Trust did not have any portion of net position subject to external restriction and, therefore, did not report any restricted net position. Unrestricted net position is the remaining net position not included in the previous two categories.

The Trust applies restricted resources first when outlays are incurred for purposes for which either restricted or unrestricted amounts are available.

In April 2018, the Board of Trustees adopted a policy in order to smooth out premium increases to members by setting requirements for the Trust to maintain a targeted reserve in an amount equivalent to 3.5 months' operating expenses and claim losses, or 29% of total operating expenses and claim losses. The minimum and maximum reserve amounts are three months or 25% and four months or 33%, respectively. The Trust includes adjustments to member premiums as a result of the Trust exceeding or falling below its target reserve. Adjustments to premiums are based on the actual reserve percentage compared to target and are amortized over a three- to five-year period by the Trust.

**NOTE 2: DEPOSITS AND INVESTMENTS**

The Trust is authorized to invest monies in interest bearing savings accounts or one of the Arizona State Treasurer's Office Local Government Investment Pools (LGIP), as specified by the Board of Trustees.

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2024**

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**NOTE 2: DEPOSITS AND INVESTMENTS (CONTINUED)**

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of bank failure the Pool's deposits may not be returned to the Trust. The Trust does not have a deposit policy for custodial credit risk. At year-end, the carrying amount of the Trust's deposits was \$5,148,352 and the bank balance was \$6,961,341. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was collateralized through the Arizona State Treasurer's pooled collateral program.

As required by state law, the total amount of collateral pledged, and insurance coverage provided must be greater than or equal to 102% of the bank balance of the Trust.

Fair Value Measurements

The Trust categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

Level 1 - Inputs are quoted prices in active markets for identical assets.

Level 2 - Inputs are significant other observable inputs.

Level 3 - Inputs are significant unobservable inputs.

The Trust maintains its investments in the Arizona State Treasurer's Office Local Government Investment Pool 5. The pools are not required to register (and are not registered) with the Securities and Exchange Commission. The activity and performance of the pools are reviewed monthly by the State Board of Investment. The fair value of each participant's position in the State Treasurer investment pools approximates the value of the participant's shares in the pool and the participants' shares are not identified with specific investments. Participants in the pool are not required to categorize the value of shares in accordance with the fair value hierarchy.

Interest Rate Risk

The Trust has adopted a formal investment policy that limits investment maturities to a term not exceeding more than five years as a means of managing its exposure to declines in fair value due to fluctuations in interest rates.

Credit Risk

The Trust's investment policy mandates the quality of investments allowable for purchase. The Arizona State Treasurer's Office Local Government Investment Pool 5 had a weighted average rating of AAA by S&P at year-end and meets the requirements of the Trust's investment policy.

Custodial Credit Risk - Investments

The Trust's investment in the State Treasurer's investment pool represents a proportionate interest in the pool's portfolio; however, the Trust's portion is not identified with specific investments and is not subject to custodial credit risk. The Trust's investment balance on June 30, 2024, was \$17,400,828.

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2024**

**NOTE 3: CAPITAL ASSETS**

A summary of capital asset activity for the period ending June 30, 2024, is as follows:

	Balance July 01, 2023	Additions	Deductions	Balance June 30, 2024
Capital assets being depreciated/amortized				
Leasehold improvements	\$ 554,659	\$ -	\$ -	\$ 554,659
Furniture and equipment	106,868	-	-	106,868
Intangibles:				
Right-to-use leased assets:				
Building	625,749	-	-	625,749
Total capital assets being depreciated/amortized	1,287,276	-	-	1,287,276
Less accumulated depreciation/amortization				
Leasehold improvements	(554,659)	-	-	(554,659)
Furniture and equipment	(106,868)	-	-	(106,868)
Intangibles:				
Right-to-use leased assets:				
Building	(5,087)	(70,234)	-	(75,321)
Total accumulated depreciation/amortization	(666,614)	(70,234)	-	(736,848)
Business-type activities, capital assets, net	\$ 620,662	\$ (70,234)	\$ -	\$ 550,428

Depreciation and amortization expense for the fiscal year was \$70,234.

**NOTE 4: LONG-TERM DEBT OBLIGATIONS**

At end of the current fiscal year, the Trust's debt obligation was made up entirely of a lease payable. The lease was entered into in June 2024 for the right to use office space. The total amount of lease assets and the related accumulated amortization are noted in the capital assets schedule in Note 3, above. The following schedule details minimum lease payments to maturity for the Trust's lease payment as of June 30, 2024.

Year ending June 30:	Principal	Interest
2025	\$ 59,854	\$ 15,746
2026	61,953	13,962
2027	67,315	12,065
2028	69,321	10,059
2029	71,739	7,972
2030-2032	232,863	10,040
Total	\$ 563,045	\$ 69,844

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2024**

**NOTE 4: LONG-TERM DEBT OBLIGATIONS (CONTINUED)**

Changes in long-term liabilities for the year ended June 30, 2024 are as follows:

	Balance July 01, 2023	Additions	Deductions	Balance June 30, 2024	Due Within One Year
Lease Activity	\$ 620,981	\$ -	\$ (57,936)	\$ 563,045	\$ 59,854

**NOTE 5: CLAIM RESERVES**

As discussed in Note 1, the Trust establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities for the Trust during the past two years, for comparability purposes.

	<u>2024</u>	<u>2023</u>
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	\$ 3,702,385	\$ 3,961,640
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	<u>24,469,658</u>	<u>23,717,648</u>
Total incurred claims and claim adjustment expenses	28,172,043	27,679,288
Payments:		
Claim and claim adjustment payments attributable to insured events of the current fiscal year	20,535,511	21,878,581
Claims and claim adjustment payments attributable to insured events of the prior fiscal years	<u>1,704,156</u>	<u>2,098,322</u>
Total payments	<u>22,239,667</u>	<u>23,976,903</u>
Total unpaid claims and claim adjustment expenses at end of the fiscal year	<u>\$ 5,932,376</u>	<u>\$ 3,702,385</u>

On June 30, 2024, and 2023, \$5,932,376 and \$3,702,385, respectively, of unpaid claims and claim adjustment expenses are presented at their estimated ultimate loss. These claims are not discounted and include an estimate for claims incurred but not report (IBNR) of \$3,637,363 and \$1,863,000, respectively.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST**  
**REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A CLAIMS DEVELOPMENT INFORMATION**  
**TEN-YEAR PERIOD ENDED JUNE 30, 2024**

	Fiscal and Policy Year Ended									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
1) Net earned required contribution and investment revenues	\$ 36,080,695	\$ 33,988,758	\$ 32,177,786	\$ 32,259,556	\$ 30,981,653	\$ 30,793,858	\$ 27,976,269	\$ 24,714,142	\$ 23,359,477	\$ 23,349,693
2) Unallocated expenses	7,471,515	6,528,870	6,659,054	6,975,726	6,723,772	6,701,307	6,620,256	22,662,837	21,948,932	21,014,615
3) Estimated incurred claims and expense, end of policy year	24,469,658	23,717,648	26,274,667	24,576,620	21,358,365	24,255,505	21,041,839	22,662,837	21,948,932	21,014,615
4) Paid (cumulative) as of:										
End of policy year	20,535,511	21,878,581	24,260,879	22,295,383	19,865,160	22,114,655	20,634,754	20,879,974	21,737,312	18,301,975
One year later		23,582,737	26,363,428	24,634,625	21,299,488	23,951,645	21,531,241	21,913,233	23,093,111	20,380,101
Two years later			26,363,428	24,655,263	21,326,304	23,857,306	21,533,902	21,906,116	23,094,196	20,375,617
Three years later				24,655,263	21,329,617	23,857,222	21,527,072	21,906,116	23,095,281	20,375,261
Four years later					21,329,617	23,857,222	21,527,072	21,906,116	23,118,409	20,375,261
Five years later						23,857,222	21,527,072	21,906,116	23,118,409	20,375,261
Six years later							21,527,072	21,906,116	23,118,409	20,375,261
Seven years later								21,906,116	23,118,409	20,375,261
Eight years later									23,118,409	20,375,261
Nine years later										20,375,261
5) Re-estimated incurred claims and expense										
End of policy year	24,469,658	21,878,581	26,274,667	24,576,620	21,358,365	24,255,505	21,041,839	22,662,837	21,948,932	21,014,615
One year later		23,582,737	26,363,428	24,634,625	21,358,365	24,255,505	21,531,241	22,239,096	22,146,731	22,171,938
Two years later			26,363,428	24,655,263	21,358,365	24,161,166	21,533,902	21,906,116	23,118,409	20,375,261
Three years later				24,655,263	21,329,617	23,857,222	21,527,072	21,906,116	23,118,409	20,375,261
Four years later					21,329,617	23,857,222	21,527,072	21,906,116	23,118,409	20,375,261
Five years later						23,857,222	21,527,072	21,906,116	23,118,409	20,375,261
Six years later							21,527,072	21,906,116	23,118,409	20,375,261
Seven years later								21,906,116	23,118,409	20,375,261
Eight years later									23,118,409	20,375,261
Nine years later										20,375,261
6) Increase/ (decrease) in estimated incurred claims and expense from end of policy year	N/A	\$ (134,911)	\$ 88,761	\$ 78,643	\$ (28,748)	\$ (398,283)	\$ 485,233	\$ (756,721)	\$ 1,169,477	\$ (639,354)

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST  
REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A  
NOTES TO THE CLAIMS DEVELOPMENT INFORMATION  
TEN-YEAR PERIOD ENDED JUNE 30, 2024**

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The table on the previous page illustrates how the Trust's earned revenues (net of reinsurance) and investment income compared to related costs of loss (net of loss assumed by reinsures) and other expenses assumed by the Trust as of the end of the last year. The rows of the table are defined as follows:

- (1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues.
- (2) This line shows each fiscal year's other operating costs of the Trust including overhead and claims expense not allocable to individual claims.
- (3) This line shows the Trust's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
- (4) This section shows the cumulative amounts paid as of the end of successive years for each policy year.
- (5) This section shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.
- (6) This line compares the latest re-estimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years.

The columns of the table show data for successive policy years.

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# **GOVERNMENT AUDITING STANDARDS REPORT**

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Trustees  
Northern Arizona Public Employees Benefit Trust  
Flagstaff, Arizona

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of Northern Arizona Public Employees Benefit Trust (the "Trust"), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements, and have issued our report thereon dated April 7, 2025.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Trust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the Trust's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Trust's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Trust's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*CWDL, Certified Public Accountants*

April 7, 2025  
Mesa, Arizona